




30 October 2009


 Mr Michael Bird
 Executive Director
 International Air Services Commission
 GPO Box 630
 Canberra ACT 2601



Dear Mr Bird *Nice*

Draft Determinations [2009] IASC 131 and [2009] IASC 132 – Fiji Route

I refer to Draft Determinations [2009] IASC 131 and [2009] IASC 132 issued on 20 October, in which the Commission indicated its intention to allocate 907 seats to V Australia and 852 seats to Qantas respectively on the Fiji route.

While Qantas welcomes the proposed allocation of a portion of capacity for use by Jetstar, there are a number of aspects of the draft determinations to which we would like to respond.

In particular, although the Commission notes that it considers that "Qantas should be allocated a commercially viable amount of capacity that would enable Jetstar to compete effectively" (6.17) the grant of four equivalent A321 services weekly does not, in our view, support this. Qantas believes an allocation of seven equivalent A321 services per week (1,491 seats) is required to enable Jetstar to operate a marketable and competitive frequency on the route.

As noted by the Commission, as a one-class leisure carrier Jetstar offers a "...broadly similar product experience to Pacific Blue..." (6.22). Since commencing services on the Sydney-Nadi route in 2005, Pacific Blue has operated all but one scheduling season with a minimum of five frequencies per week and has had a daily offering for the past two seasons. This underscores the importance of frequency to the leisure segment, particularly when consideration is given to comparable markets with which Fiji competes for Australian leisure traffic, such as Bali. In addition to the need for a convenient and flexible schedule for an airline to attract customers, Jetstar's ability to provide a daily service is critical in competing effectively with the well-established incumbents in the market, Pacific Blue and Air Pacific, which operate a collective total of 40 weekly frequencies between Australia and Fiji.



Qantas Airways Limited ABN 16 009 661 901
 Qantas Centre 203 Coward Street Mascot NSW 2020 Australia
 Telephone 61 (2) 9691 3636

qantas.com

The Commission states that "... Jetstar serves a range of other international destinations with less than daily services" (6.17). As outlined in Qantas' submission of 8 September, Jetstar has only entered international leisure markets with less than a daily frequency either to complement Qantas own aircraft flying to attain a daily frequency, or on sectors which had limited competition. The Fiji route does not fall into either category. Qantas' presence is indirect via its code share with Air Pacific, and, as highlighted above, the incumbents together operate 40 weekly services between Australia and Fiji, 15 of which are Sydney-Nadi flights.

The ability to operate a daily service is also important to Jetstar's ability to compete on a commercially effective basis. Low frequency operations increase the cost of services through less efficient utilisation of crew and equipment and an inability to spread fixed costs. In the absence of a daily frequency, the viability of four weekly Jetstar services would be uncertain.

The proposed allocation would see the Virgin Blue Group operate 17 frequencies per week (4,147 seats) with the Qantas Group limited to four frequencies (852 seats). It is entirely possible that, when conditions improve on routes to which the B777-300ER is better suited, V Australia will redeploy this aircraft to other destinations. The Virgin Blue Group would then hold capacity allocation to enable it to operate 23 weekly B737-800 services to Fiji – a frequency and capacity advantage that would render a four times weekly Jetstar operation unsustainable.

The Commission has indicated that "... any frequencies added by Jetstar would complement the existing daily services operated by Air Pacific/Qantas ..." (6.17). It also notes that Qantas has access to "substantial" Fiji capacity, and scope to increase this via the code share arrangements with Air Pacific (6.15, 6.16). Notwithstanding the Commission's signal that it would "modestly discount" the amount of capacity available to Qantas in considering the competing applications (6.9), Qantas is not confident that there is sufficient recognition of the fundamental advantages of operating carriers over marketing carriers, such as the ability to determine timings, frequency, routes, aircraft types and (in the case of freesale code share) available inventory or "fare categories".

Moreover, there is no certainty that Qantas can access even its current level of code share capacity with Air Pacific in the future. Air Pacific can decide not to renew the code share arrangement or cease operating some or all services from Fiji to Australia. Air Pacific's operations in the Australian market are a commercial decision for that carrier and are made independently in the context of the attractiveness of opportunities on other routes.

In considering possible splits of the available capacity, the Commission states that the relative allocation of capacity would determine the extent of V Australia's disadvantage to the combination of Jetstar and Air Pacific/Qantas on the Sydney-Nadi route (6.18). This assumes that Qantas already has an advantage through the code share arrangement, although both the existing distribution of capacity and market share statistics indicate otherwise. Qantas' access to capacity appear to have been treated as equivalent to that of an operating carrier (refer also 6.12). As outlined above, marketing carriers have limitations on the scope of the benefits they can derive relative to operating carriers.

Qantas supports the Commission's desire to minimise the number of unallocated seats on the Fiji route given the competing proposals that are before it. However, in proposing possible splits of capacity, we would suggest that there are options to do

so which could involve the use of a mix of A321 and A320 aircraft by Jetstar to produce a more competitive frequency distribution with V Australia.

The apparent consideration given by the Commission to the timing of the Group's application and past opportunities for it to operate its own aircraft on the route (6.16) is a concern. A range of factors influences the commercial decisions of airlines and Qantas would not regard it as appropriate for consideration of a proposal by an airline to respond to a change in current circumstances to occur in the context of previous circumstances.

The importance of frequency for premium travellers and the freight market was cited in allocating V Australia a higher equivalent frequency of service than Jetstar (6.37). Qantas questions the weighting accorded to each of these criteria. While V Australia's premium product is a differentiating feature in comparison with Jetstar, it is relevant to at best the 5% of total passengers on the Australia-Fiji route who travel for business purposes. Many passengers travelling for business purposes as recorded in these ABS statistics actually fly in the economy class cabin, particularly on shorter sector lengths. Given the limited weighting accorded by the Commission to the number of inbound visitors on the route (6.28), which accounted for 12% of total traffic on the route in the year to June 2009, Qantas believes the size of the premium market warrants a similar approach.

In evaluating the potential for trade benefits on the Australia-Fiji route, the Commission notes that V Australia's proposal offers considerably greater public benefits than Jetstar (6.30). According to BITRE statistics, 143.6 tonnes of outbound freight has been carried on the Sydney-Nadi route in 2009, representing around 3% of the available outbound freight capacity on the route¹. While V Australia is able to offer more freight capacity in comparison with an A321 service, the public benefit here is questionable when there is such significant excess freight capacity already available.

In justifying its proposed allocation, the Commission indicates that there "should also be scope for Jetstar to gain approvals for supplementary services in the peak periods" (6.38). Qantas does not regard this as a valid consideration for the purposes of differentiating between the airlines' proposals. The provision offers no certainty, and is similarly available to V Australia under the Australia-Fiji air services arrangements. This possibility, which would require the agreement of the aeronautical authorities of Fiji, should be treated in the same manner as the outcome of future air services consultations, that is "... as the outcome of any negotiations cannot be prejudged, the Commission has not taken this into consideration in its decision making process." (6.25).

I would be pleased to provide any further information in relation to the above if it would be of assistance.

Yours sincerely



Jane McKeon
Head of Government and International Relations

¹ Based on BITRE's July 2009 statistics. The total freight capacity available on the Sydney-Nadi route does not include the limited capacity available on Pacific Blue's B737-800 services and has been calculated solely on the basis of Air Pacific's daily B747-400 with the assumption that there is a full passenger load.